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The Floundering of America

The U.S. future based on current trends is meaner, riskier and less dynamic.

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As Washington lurches from crisis to crisis, the United States is floundering. "If we could first know where we are, and whither we are tending," Abraham Lincoln declared in 1858, "we could better judge what to do, and how to do it." In Lincoln's time, we were tending toward a conflict over slavery. Today, we are hurtling toward a less dynamic economy, a meaner society and a riskier world.

To begin, we are in the early stage of a historic shift in the U.S. workforce. In the four decades from 1970 through 2010, the labor force expanded at an average rate of 1.6% a year. Between 2023 and 2038, the Congressional Budget Office projects, the labor force growth will average only 0.4% a year, a pace that is likely to persist even beyond the 25-year window. More workers are leaving the workforce to retire, and women's labor-force participation—a potent source of growth for two generations—has plateaued. Unless immigration increases dramatically, the U.S. workforce will expand only one-quarter as fast as it did in recent decades.

The trend has broad economic implications. Assuming a continuation of current policies over the next quarter-century, real growth in gross domestic product will average only 2% annually, and real GDP per person will grow at only 1.3% annually, compared with 2.1% between 1967 and 2007. Without new policies that jolt the country out of its current path, slower growth will become the new normal.



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An added concern: There is good reason to believe that America is aging even faster than we thought. Over the past 60 years, mortality rates have declined by an average of 1.17% a year. The trustees of the Social Security system believe that the annual rate of decline will slow in coming decades to only 0.80%, an assumption that underlies the trustees' current economic projections for the program.

But the Social Security Administration's advisory panel on assumptions and methods disagrees,

arguing that because of the long-term consequences of decreased smoking, the decline in mortality rates will speed up. The Congressional Budget Office counters that because of offsetting factors such as obesity and improving medical technology, it is most defensible to assume that the trends

of the past six decades will continue.

This dispute may sound abstruse, but the real-world consequences are enormous. Life expectancy today averages 78.5 years. The Social Security trustees project that this figure will rise to 83.6 years over the next two generations. But if their own advisory panel is correct, average life expectancy will be more than two years higher—85.8 years. Simply extrapolating current trends, as the CBO suggests, generates an average of 84.9 years—1.3 years more than the Social Security trustees foresee.

If the CBO is right, the population of Americans 65 or older would rise by 37% over the next decade and 85% by 2038. The number of Social Security beneficiaries would rise correspondingly—from 57 million today to 76 million in 2023 and a staggering 101 million just 15 years later. The system's actuarial shortfall would amount to 3.4% of taxable payroll, significantly more than the 2.72% the trustees expect. And the surge in Social Security outlays is only one of many challenging consequences of a rapidly aging society.

A third key trend: In recent decades, the CBO finds a sustained reduction in the excess-cost growth for health care—the amount by which health-care costs per capita rise faster than GDP per capita. But even assuming a continuation of this favorable trend, the CBO projects, national health-care spending would increase by about 5%—to 22% of GDP—by 2038.

In sum, current trends and policies will yield lower rates of economic growth, painfully slow gains in real incomes, huge increases in outlays for expenses related to an aging population, and a health sector that devours more and more of the national product. Only an unprecedented decline in discretionary spending to 5.3% of GDP in 2023 (the lowest level since at least 1962) would keep the burden of debt roughly stable during the next decade.

But that projected decline—the consequence of sequestration—is pure folly. With only 2.6% of GDP for national defense and an equal share for domestic purposes, there is no way that the U.S. can continue to provide global stability and finance the public investments that a strong economy requires while also meeting the needs of vulnerable individuals who have no place else to turn.

The country needs a new national strategy for a viable future—a coherent set of ambitious goals that will serve, as John F. Kennedy said in announcing the race to the moon, to "organize and measure the best of our energies and skills."

That strategy begins with the recognition across party lines that we cannot go on this way.

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